

Message Text

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ACTION EUR-12

INFO OCT-01 IO-14 ISO-00 SP-02 USIA-15 AID-05 EB-08
NSC-05 TRSE-00 SS-15 STR-07 OMB-01 CEA-01 CIAE-00
COME-00 FRB-01 INR-10 NSAE-00 XMB-04 OPIC-06
LAB-04 SIL-01 AGRE-00 DOE-11 SOE-02 /125 W
-----115112 150756Z /11

R 141530Z MAR 78
FM AMEMBASSY BERN
TO SECSTATE WASHDC 5925
INFO AMEMBASSY BONN
AMEMBASSY BRUSSELS
USMISSION GENEVA
AMEMBASSY LONDON
AMEMBASSY PARIS
AMEMBASSY ROME
AMCONSUL ZURICH POUCH

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PASS TREAS AND FRB

USMTN ALSO FOR MISSION

USOECD ALSO FOR EMBASSY

EO 11652: NA
TAGS: EFIN SZ
SUBJ: SWISS FINANCIAL REVIEW: WEEK OF MAR 5-11

1. SUMMARY: WEEK WAS DOMINATED BY EFFECTS OF FEB 27
MEASURES TO CURB CAPITAL INFLOWS. DOLLAR RATE AGAINST
SWISS FRANC ROSE ABRUPTLY TO SF 1.86. GOLD PRICE
ROSE TO \$186 PER OUNCE. SWISS NATL BANK GEN MGR
LANGUETIN BRIEFED PRESS ON HIS VISIT TO WASHINGTON.
STOCK AND BONDS PRICES FELL; BOND YIELDS ROSE.
SNB FINALLY ISSUED DETAILED RULES EXPLAINING FEB 27 BAN ON
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CAPITAL IMPORTS. GOVT REPORTED 1977 FEDERAL BUDGET DEFICIT WAS
LOWER THAN EXPECTED. SNB REPORTED 1977 MONEY SUPPLY GROWTH
RATE WAS ON TARGET. END SUMMARY.

2. FOREX AND GOLD:
A) DOLLAR RATE AGAINST SF FLUCTUATED UPWARD
IN BIG MOVEMENTS. DEALERS SAID "SURPRISE" DOLLAR

STRENGTHENING LACKED ECONOMIC BASIS; NOTED US TRADE DEFICIT GROWING AND COAL STRIKE STILL UNSETTLED. ATTRIBUTED DOLLAR RISE TO "PSYCHOLOGICAL" FACTORS: SWISS BAN ON CAPITAL IMPORTS; MARKET CONCERN JAPAN AND WEST GERMANY MIGHT ADOPT SIMILAR MEASURES TO STEM UPWARD PRESSURE ON THEIR CURRENCIES; US ADMINISTRATION STATEMENTS THAT DOLLAR WILL STRENGTHEN; SNB PRESS LEUTWILER'S STATEMENT THAT DOLLAR 20 PCT UNDERVALUED AGAINST SF; AND WHITE HOUSE ANNOUNCEMENT OF US-WEST GERMAN FOREX POLICY COORDINATION PLANS. SNB REITERATED ITS OPPOSITION TO TWO-TIER EXCHANGE RATES: SAID OTHER MEASURES COULD BE ADOPTED TO HELP STEM SF APPRECIATION; INCLUDING LICENSE REQUIREMENT FOR FOREX DEALERS.

B) GOLD PRICE ROSE TO \$189.75 PER OUNCE WED BUT FELL BACK TO \$186 AS DOLLAR RATE STABILIZED. KILOGRAM PRICE ROSE SF 1000 FROM SF 11,000 BUT DECLINED FRIDAY AS DOLLAR DROPPED FROM SF 1.99 TO SF 1.86. DEALERS DISCOUNTED POSSIBILITY OF FURTHER PRICE DECLINE. SWISS BANK CORP MGR KAUFMANN SAID GOLD PRICE INFLUENCED BY US FUTURES MARKET: US INVESTORS INCREASINGLY INTERESTED IN GOLD. EXPECTED PRICE RISE TO \$200 IN 1978. NOTED REPORT OF POSSIBLE INCLUSION OF GOLD IN NEW OIL REFERENCE PRICE. SAID INDUSTRIAL DEMAND IS STABLE WITH UPWARD TREND. INVESTORS MIGHT SWITCH TO GOLD WHEN NEW SWISS RULE ON NEGATIVE INTEREST RATE UNCLASSIFIED

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FOR NON-RESIDENT BANK ACCTS TAKES EFFECT APR 1. RATES FOLLOWS:

ITEM - 3/6 (OPEN) - 3/10 (CLOSE)
SPOT DOLLAR - 1.82 - 1.9425
FORWARD DISCOUNTS (PERCENT PER ANNUM)
ONE MONTH - 7.25 - 6.98
TWO MONTHS - 6.87 - 6.67
THREE MONTHS - 6.84 - 6.57
SIX MONTHS - 7.04 - 6.64
TWELVE MONTHS - 6.47 - 6.05
SF/DM - 91.11 - 94.11
GOLD - 184.75 - 186.00

3. LANGUETIN VISIT:

A) SNB GEN MGR PIERRE LANGUETIN TOLD PRESS ON RETURN FROM WASHINGTON HE WAS PLEASANTLY SURPRISED

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PASS TREAS AND FRB

USMTN ALSO FOR MISSION

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TO LEARN US PLANS ADDITIONAL MEASURES TO STABILIZE
DOLLAR. SAID US PLANS COMPREHENSIVE PROGRAM: LONG
TERM REDUCTION OF TRADE DEFICIT BY ENERGY CONSERVATION
AND LOWER INFLATION; ACQUISITION OF FOREX TO MAKE
INCREASED MARKET INTERVENTIONS TO SUPPORT DOLLAR.
SAID US MIGHT INCREASE INTL MONETARY POLICY COORDINATION
AND ENGAGE IN CONCERTED EFFORTS TO STABILIZE EXCHANGE RATES.

B) LANGUETIN SAID US AUTHORITIES WERE LESS
CRITICAL OF SWISS; I.E., CRITICAL OF SWISS BOP SURPLUS
BUT UNDERSTANDING THAT SURPLUS UNWANTED AND LARGELY
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STEMS FROM INTEREST ON FOREIGN LOANS. BELIEVE US
AUTHORITIES WERE IMPRESSED BY SERIOUSNESS OF SWISS
MEASURES TO BAR CAPITAL INFLOWS, AND SWISS ARGUMENT
THAT SF APPRECIATION WOULD HAVE DELETERIOUS EFFECT ON

SWISS ECONOMY WHICH COULD REDOUND ON US. SAID BOTH SIDES AGREED EXCHANGE OF VIEWS WAS USEFUL.

C) RE LANGUETIN'S TRIP, SNB VP SCHUERMANN SAID SWISS COULD NOT PURESSURE US INTO MORE ACTIVE DOLLAR SUPPORT BUT SWISS COULD STRESS NEED FOR SOLIDARITY AND WEST EUROPEAN EXPORT DEPENDENCE ON DOLLAR DEVELOPMENTS.

4. CAPITAL INFLOW BAN:

A) SNB ISSUED DETAILED SET OF RULES EXPLAINING THAT FEB 27 MEASURES EFFECTIVELY BAN ALL PURCHASES OF SF SECURITIES BY NON-RESIDENT. ONLY EXCEPTION PERMITTED WILL BE 35 PCT QUOTA OF SF BOND ISSUES BY FOREIGN BORROWERS; BANKS MUST RESERVE 65 PCT FOR SWISS RESIDENTS. SNB ALSO REMOVED CEILING ON NON-RESIDENT BOND ISSUES WHICH HAD BEEN SET AT SF 580 MILLION FOR JAN-FEB 1978. BANKERS NOTED SNB IS MAKING NO EXCEPTIONS TO NEGATIVE INTEREST RATE RULE ON NON-RESIDENT OWNED BANK DEPOSITS, WHEREAS SOME EXCEPTIONS HAD BEEN MADE IN THE PAST.

B) SNB VP SCHUERMANN EXPRESSED SATISFACTION WITH SUCCESS MEASURES BANNING CAPITAL INFLOWS TO REMOVE UPWARD PRESSURE ON SF, THOUGH IT WOULD TAKE MONTHS TO JUDGE FULL IMPACT. SAID IMPORTANCE OF SWISS FINANCIAL MARKET WOULD NOT BE AFFECTED. CAPITAL EXPORT POLICY REMAINS UNCHANGED AND THERE IS GREAT DEMAND TO ISSUE LOANS ON SWISS MARKET.
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5. CAPITAL AND MONEY MARKETS:

A) STOCK PRICES GENERALLY FELL IN WAKE OF BAN ON INVESTMENTS BY NON-RESIDENTS. SKA SHARE INDEX DROPPED 18 POINTS TO 236.2, DOWN 7 PCT; LOWEST LEVEL SINCE SEP 1977. FOREIGN INVESTORS REPORTEDLY SOLD TO TAKE FOREX PROFITS IN BELIEF SF APPRECIATION IS OVER. DOMESTIC INVESTORS SOLD TO AVOID LOSSES. BOND PRICES FELL AS MUCH AS 5 PCT, DRIVING UP YIELDS. MANY INVESTORS ARE HESITATING TO BUY BONDS WHILE YIELDS CONTINUE RISING. AVERAGE YIELD CONFEDERATION BONDS ROSE 4 PCT TO 3.60. SEVERAL BANKERS EXPRESSED CONCERN THAT INCREASED BOND YIELDS COULD EXERT UPWARD PRESSURE ON OTHER INTEREST RATES, THOUGH OTHERS DISCOUNTED THAT POSSIBILITY IN VIEW OF ABUNDANT MARKET LIQUIDITY.

B) SEVERAL BANKERS NOTED THEY CONTINUE TO ADVISE INVESTMENTS IN US STOCKS DESPITE PORTFOLIO LOSSES FROM

DOLLAR DECLINE. SAID NORTH AMERICAN MARKET PRESENTS
BEST POTENTIAL AND SECURITY FOR INVESTORS; SWITZERLAND
IS NEXT BEST.

6. POLICIES:

A) FEDERAL 1977 ACCTS CLOSED WITH SF 1.47 BILLION
DEFICIT, COMPARED TO EXPECTED SF 1.77 BILLION DEFICIT
AS BUDGETED. GOVT SPENDING WAS SF 15.49 BILLION, 2.1 PCT
BELOW BUDGET, WHILE REVENUE WAS SF 14.02 BILLION, 1.4
PCT BELOW BUDGET. THIS COMPARES WITH 1976 DEFICIT OF
SF 1.57 BILLION AND BUDGETED 1978 DEFICIT OF SF 1.2 BILLION.

B) SNB REPORTED MONEY SUPPLY (M1) GREW AVERAGE
5.5 PCT IN 1977. WHILE M2 GREW 4.8 PCT AND M3 BY 8.4
PCT. SNB TARGET FOR M1 GROWTH WAS 5 PCT FOR 1977.
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